Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

Message Text

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PAGE 01 QUITO 07397 041535Z

60
ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 DODE-00 PM-04 H-02 L-03

NSC-05 PA-02 PRS-01 SS-15 /098 W
---------- 127395
R 041330Z OCT 75
FM AMEMBASSY QUITO
TO SECSTATE WASHDC 7504
INFO AMCONSUL GUAYAQUIL

UNCLAS QUITO 7397

E.O. 11652: N/A
TAGS: EFIN, EC
SUBJECT: NEW FINANCE MINISTER MORILLO ANNOUNCES ECONOMIC PLANS

BEGIN SUMMARY: FINANCE MINISTER ANNOUNCED OCTOBER 2 THAT ECUADOR WILL BORROW $150 MILLION TO FINANCE THE BUDGET DEFICIT AND DEVELOPMENT PROJECTS. ALSO, THAT THE CENTRAL GOVERNMENT BUDGET DEFICIT WOULD TOTAL THE EQUIVALENT OF $35.7 MILLION FOR 1975, AND DEFICITS IN FONADE AND FONAPRE WOULD BRING THE TOTAL TO $47.4 MILLION. MINISTER ALSO DEFINED ECONOMIC OBJECTIVES FOR 1976. END SUMMARY.

1. RECENTLY-APPOINTED FINANCE MINISTER, JAIME MORILLO, ON OCTOBER 1 PRESENTED A REPORT TO THE CABINET ON THE GOE'S FINANCIAL STATUS, AND ON OCTOBER 2 HELD PRESS CONFERENCE IN WHICH HE DETAILED PROPOSALS TO ALLEVIATE ECUADOR'S CURRENT CASH SHORTAGE. IN CABINET REPORT MORILLO WAS OPTIMISTIC THAT RECOVERY OF ECUADOREAN ECONOMY FROM BUDGETARY AND TRADE-ACCOUNT DEFICITS WILL BE ACHIEVED BY 1976. MORILLO POINTED OUT THAT FOREIGN RESERVES INCREASED FOR THE FIRST TIME IN A YEAR IN EARLY SEPTEMBER, THAT THE RATE OF INFLATION HAS DROPPED BY 50 PERCENT FROM 1974 LEVELS, AND THAT ECUADOR IS STILL CONSIDERED CREDIT-WORTHY BY THE INTERNATIONAL FINANCIAL COMMUNITY. MORILLO ACKNOWLEDGED THAT
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PAGE 02 QUITO 07397 041535Z

DEFICITS EXIST IN THE BUDGET, THE NATIONAL DEVELOPMENT

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

FUND (FONADE) AND THE NATIONAL PARTICIPATION FUND (FONAPRE). HOWEVER, HE SAID, ACTUAL DEFICITS IN THESE ACCOUNTS ARE FAR LESS THAN EARLIER PREDICTIONS. FINANCE MINISTRY IS INSTITUTING AN AUSTERITY PROGRAM AND IS STUDING WAYS TO EFFECT FURTHER BUDGET CUTS, MORILLO TOLD CABINET.

2. IN FIRST PRESS CONFERENCE SINCE ASSUMING OFFICE, MORILLO ANNOUNCED THAT THE GOE HAS DECIDED TO APPLY FOR LOANS OF $150 MILLION TO COVER THE CENTRAL GOVERNMENT BUDGET DEFICIT, TO FINANCE DEVELOPMENT PROJECTS, AND TO COVER DEBT REPAYMENT. THESE LOANS WILL BE FINANCED BY A CONSORTIUM OF INTERNATIONAL BANKS, HE SAID. MORILLO ADDED THAT THE IBRD AND BID WOULD PROVIDE APPROXIMATELY $50 MILLION FOR INFRASTRUCTURE DEVELOPMENT IN CY 1975.

3. THE PROGRAM PRESENTED TO THE CABINET, HE SAID, WOULD HOPEFULLY PROMOTE GROWTH IN EMPLOYMENT AND PRODUCTION, PRICE STABILIZATION AND INCREASED PER CAPITA INCOME. THE MINISTER ASSERTED THAT THE CURRENT ECONOMIC SITUATION RESULTS FROM ECONOMIC DISEQUILIBRIUM CAUSED BY SUBSTANTIAL INCREASES IN EXPORTS SINCE 1973, BY INCREASED EXPECTATIONS ADDED ON TO HISTORICALLY HIGH LEVELS OF INVESTMENT AND CONSUMPTION, AND BY BOTH INTERNAL AND EXTERNAL INFLATIONARY PRESSURES.

4. MORILLO ANNOUNCED THAT THE CY 1975 BUDGET DEFICIT WOULD REACH EQUIVALENT OF 35.7, WHILE DEFICITS IN FONADE AND FONAPRE WILL RAISE TOTAL TO $47.4 MILLION. MORILLO ASSERTED THAT THIS DEFICIT WOULD REPRESENT 6 PERCENT OF TOTAL PUBLIC SPENDING OF THE NATIONAL GOVERNMENT. $20 MILLION OF THIS DEFICIT HAS ALREADY BEEN FINANCED FROM DOMESTIC SOURCES, AND THE GOVERNMENT IS NOW APPLYING FOR FINANCING FOR THE REMAINDER, HE ADDED. MORILLO EMPHASIZED THAT ECUADOR IS NOW A NET EXPORTER OF CAPITAL DUE TO DEBT AMORTIZATION. SINCE THIS CAPITAL OUTFLOW CANNOT BE SUSTAINED, HE CONTINUED, ECUADOR IS APPLYING FOR $150 MILLION FOREIGN LOAN.

5. MORILLO ALSO ANNOUNCED PROGRAM OF LONG-RANGE OBJECTIVES FOR DEVELOPMENT OF THE ECUADOREAN ECONOMY. HE ASSURED THE PUBLIC THAT BUDGET SPENDING WOULD INCREASE BY ONLY 13 TO 18
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PERCENT IN 1976. (COMMENT: CENTRAL GOVERNMENT BUDGET SPENDING HAS INCREASED 30 TO 40 PERCENT A YEAR FOR THE PAST THREE YEARS.) A GROWTH RATE OF 5 PERCENT WILL BE ACHIEVED FOR 1976, HE SAID, AND INTERNATIONAL RESERVES WILL INCREASE BY $54 MILLION FROM SEPTEMBER 12, 1975, TO DECEMBER 31, 1976. HE ALSO FORECAST THAT THE MONEY SUPPLY WOULD GROW 12 PERCENT IN THE NEXT YEAR AND CREDIT IN THE HANDS OF THE PRIVATE SECTOR WOULD INCREASE BY 16

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PERCENT. INFLATION, HE PROMISED, WOULD BE HELD TO AN
ANNUAL LEVEL OF 10 PERCENT.
BREWSTER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC PROGRAMS, CENTRAL GOVERNMENT, FINANCIAL PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 04 OCT 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975QUITO07397
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750345-0784
From: QUITO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751082/aaaacuzt.tel
Line Count: 118
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: buchant0
Review Comment: n/a
Review Content Flags:
Review Date: 13 NOV 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <13 NOV 2003 by ThomasVJ>; APPROVED <20 JAN 2004 by buchant0>
Review Markings:

Margaret P. Grafeld
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US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: NEW FINANCE MINISTER MORILLO ANNOUNCES ECONOMIC PLANS BEGIN SUMMARY: FINANCE MINISTER ANNOUNCED OCTOBER 2 THAT
TAGS: EFIN, ECON, EC, (MORILLO, JAIME)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006